

**SPENCER MUNICIPAL HOSPITAL AND  
ABBEN CANCER CENTER, LLC  
FINANCIAL STATEMENTS,  
MANAGEMENT'S DISCUSSION AND ANALYSIS,  
REQUIRED SUPPLEMENTARY INFORMATION,  
SUPPLEMENTAL INFORMATION,  
SCHEDULE OF FINDINGS, AND  
INDEPENDENT AUDITORS' REPORTS  
FOR THE YEARS ENDED  
JUNE 30, 2008 AND 2007**

SPENCER MUNICIPAL HOSPITAL AND  
ABBEN CANCER CENTER, LLC  
TABLE OF CONTENTS

	<u>Page</u>
Board of Trustees and Officials .....	1
Independent Auditors' Report .....	2 - 3
Management's Discussion and Analysis .....	4 - 10
Financial Statements:	
Spencer Municipal Hospital:	
Balance Sheets .....	11 - 12
Statements of Revenues, Expenses, and Changes in Net Assets .....	13
Statements of Cash Flows .....	14 - 15
Abben Cancer Center, LLC:	
Balance Sheets .....	16
Statements of Income and Member's Equity .....	17
Statements of Cash Flows .....	18
Notes to Financial Statements .....	19 - 31
Required Supplementary Information:	
Budgetary Comparison Schedule and Related Notes .....	32
Supplemental Information:	
	<u>Schedule</u>
Gross Patient Service Revenue .....	1      33 - 34
Net Patient Service Revenue and Other Operating Revenue .....	2      35
Salaries, Professional Services, and Supplies and Other Expenses .....	3      36 - 38
Patient Receivables and Allowance for Doubtful Accounts .....	4      39
Inventory and Prepaid Expenses .....	5      40
Investment Transactions .....	6      41
Comparative Statistics .....	7      42
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters based on an Audit of Basic Financial Statements performed in Accordance with Government Auditing Standards .....	43 - 44
Schedule of Findings .....	45 - 46

SPENCER MUNICIPAL HOSPITAL  
BOARD OF TRUSTEES AND OFFICIALS  
JUNE 30, 2008

BOARD OF TRUSTEES

John Rahn  
John Cotton  
Neal Conover  
Gary VanHofwegen, DDS  
Kris Van Berkum

TITLE

Chairman  
Vice Chairman  
Secretary/Treasurer  
Trustee  
Trustee

TERM EXPIRES

December 31, 2011  
December 31, 2011  
December 31, 2009  
December 31, 2009  
December 31, 2011

HOSPITAL OFFICIALS

Doug Doorn  
Lois Morris  
Brenda Tiefenthaler  
Jason Harrington

President & CEO  
Vice-President - Finance & CFO  
Vice-President - Patient Care Services  
Vice-President - Operations

**WINTHER, STAVE & CO., LLP**  
*Certified Public Accountants*

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of  
Spencer Municipal Hospital and  
Board of Managers of  
Abben Cancer Center, LLC  
Spencer, IA 51301

We have audited the accompanying balance sheets of Spencer Municipal Hospital (Hospital) as of June 30, 2008 and 2007, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. We have also audited the balance sheets of Abben Cancer Center, LLC, (Abben), a discretely presented component unit, as of June 30, 2008 and 2007, and the related statements of income and member's equity and cash flows for the years then ended. These financial statements are the responsibility of the Hospital and Abben's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the U.S. and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Spencer Municipal Hospital and Abben Cancer Center, LLC, a discretely presented component unit, as of June 30, 2008 and 2007, and the results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

As discussed in Note 11 to the financial statements, the Hospital changed its method of accounting for its investments in permanently endowed real estate to conform to Statement No. 52 of the Governmental Accounting Standards Board effective July 1, 2006.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 1, 2008 on our consideration of Spencer Municipal Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 4 through 10 and budgetary comparison schedule on page 32 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audits were performed for the purpose of forming an opinion on the basic financial statements of Spencer Municipal Hospital and Abben Cancer Center, LLC. The supplemental information included in Schedules 1 through 7 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information, except for Schedules 4 and 7 which are marked "unaudited", on which we express no opinion, has been subjected to the auditing procedures applied in our audits of the aforementioned financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Wintler, Stave & Co., LLP*

October 1, 2008

# SPENCER MUNICIPAL HOSPITAL MANAGEMENT'S DISCUSSION AND ANALYSIS

## **Introduction**

Spencer Municipal Hospital (the Hospital) offers readers of our financial statements this narrative overview and analysis of the financial activities of the Hospital for the fiscal year ended June 30, 2008. We encourage readers to consider the information presented here in conjunction with the Hospital's financial statements, including the notes thereto.

## **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Hospital's audited financial statements. The financial statements are composed of the balance sheet, statement of revenues, expenses, and changes in net assets, and the statement of cash flows. The financial statements also include notes to the financial statements that explain in more detail some of the information in the financial statements. The financial statements are designed to provide readers with a broad overview of the Hospital's financial position. In addition, the basic financial statements of Abben Cancer Center, LLC, a component unit, are separately presented.

## **Required Financial Statements**

The Hospital's financial statements report information of the Hospital using accounting methods similar to those used by private sector healthcare organizations. These statements offer short- and long-term information about its activities. The balance sheet includes all of the Hospital's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Hospital creditors (liabilities). The balance sheet also provides the basis for evaluating the capital structure of the Hospital and assessing the liquidity and financial flexibility of the Hospital.

All of the current year's revenues and expenses are accounted for in the statement of revenues, expenses, and changes in net assets. This statement measures the success of the Hospital's operations over the past two years and can be used to determine whether the Hospital has successfully recovered all of its costs through its patient service revenue and other revenue sources. The Hospital does not receive any funding from the City of Spencer. Revenues and expenses are reported on an accrual basis, which means the related cash could be received or paid in a subsequent period.

The final required statement is the statement of cash flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and capital and related financing activities. It also provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

## **Financial Highlights for 2008**

- Total assets increased by \$1,058,170 to \$84,250,778.
- Net capital assets increased by \$2,570,322.
- Total noncurrent cash and investments decreased by \$437,292.
- Total liabilities decreased by \$645,977.
- The operating margin for fiscal year 2008 was 4.5%.

SPENCER MUNICIPAL HOSPITAL  
MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

**Financial Highlights for 2008 - Continued**

GASB 52, *Land and Other Real Estate Held as Investments by Endowments*, was adopted early during 2008 with the 2007 amounts adjusted to reflect the accounting change. Certain land held as an investment is now recorded at fair value in the Hospital's financial statements. More information on this accounting change is available in Note 11 to the financial statements.

**Financial Analysis of the Hospital**

The balance sheet and the statement of revenues, expenses, and changes in net assets report the net assets of the Hospital and the changes in them. The Hospital's net assets - the difference between assets and liabilities - is a way to measure financial health or financial position. Over time, sustained increases or decreases in the Hospital's net assets are one indicator of whether its financial health is improving or deteriorating. However, other non-financial factors such as changes in economic condition, population growth and new or changed governmental legislation should also be considered.

**Net Assets**

A summary of the Hospital's balance sheets at June 30, 2008, 2007, and 2006 are presented in Table 1 below:

Table 1

Condensed Balance Sheets	<u>June 30, 2008</u>	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Current and other assets .....	\$32,017,532	\$33,529,684	\$31,699,855
Capital assets .....	<u>52,233,246</u>	<u>49,662,924</u>	<u>46,546,619</u>
<b>TOTAL ASSETS</b>	<b><u>\$84,250,778</u></b>	<b><u>\$83,192,608</u></b>	<b><u>\$78,246,474</u></b>
Current liabilities .....	\$ 7,876,804	\$ 9,000,413	\$ 8,066,785
Long-term debt outstanding .....	<u>15,255,400</u>	<u>14,777,768</u>	<u>16,185,176</u>
<b>TOTAL LIABILITIES</b>	<b><u>\$23,132,204</u></b>	<b><u>\$23,778,181</u></b>	<b><u>\$24,251,961</u></b>
Invested in capital assets - net of related debt .....	\$35,131,125	\$33,560,722	\$29,001,056
Restricted .....	1,418,548	1,350,929	1,221,356
Unrestricted .....	<u>24,568,901</u>	<u>24,502,776</u>	<u>24,212,995</u>
<b>TOTAL NET ASSETS</b>	<b><u>\$61,118,574</u></b>	<b><u>\$59,414,427</u></b>	<b><u>\$54,435,407</u></b>

Net assets increased by \$1,704,147 to \$61,118,574 in fiscal year 2008, up from \$59,414,427 in fiscal year 2007. Net assets increased by \$4,979,020 to \$59,414,427 in fiscal year 2007 up from \$54,435,407 in fiscal year 2006. The change in net assets results primarily from operating income.

SPENCER MUNICIPAL HOSPITAL  
MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

**Revenues, Expenses, and Changes in Net Assets**

The following table presents a summary of the Hospital's historical revenues, expenses, and changes in net assets for each of the fiscal years ended June 30, 2008, 2007, and 2006.

Table 2

Condensed Statements of Revenues, Expenses, and Changes in Net Assets

	Year Ended June 30,		
	<u>2008</u>	<u>2007</u>	<u>2006</u>
Operating revenues .....	\$58,309,291	\$55,808,086	\$50,191,453
Operating expenses .....	<u>55,710,252</u>	<u>52,258,720</u>	<u>46,505,753</u>
Operating income .....	2,599,039	3,549,366	3,685,700
Nonoperating income (loss) .....	<u>(1,335,961)</u>	<u>983,554</u>	<u>356,765</u>
Excess of revenues over expenses before contributions .....	1,263,078	4,532,920	4,042,465
Contributions .....	<u>441,069</u>	<u>446,100</u>	<u>211,140</u>
Change in net assets .....	1,704,147	4,979,020	4,253,605
Total net assets - beginning of year .....	<u>59,414,427</u>	<u>54,435,407</u>	<u>50,181,802</u>
<b>TOTAL NET ASSETS - END OF YEAR</b>	<b><u>\$61,118,574</u></b>	<b><u>\$59,414,427</u></b>	<b><u>\$54,435,407</u></b>

**Operating and Financial Performance**

The following discusses the Hospital's operations and statements of revenue, expenses, and changes in net assets as of June 30, June 30, 2008, 2007, and 2006.

Volume - Volume statistics are as follows:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Inpatient discharges .....	3,664	3,554	3,408
Inpatient days .....	14,361	14,676	14,162
Outpatient registrations .....	36,763	35,874	35,360

Net Patient Service Revenue - Our net patient service revenues increased \$2,286,341 in 2008 and increased \$5,710,074 in 2007. These changes are the result of the following changes in gross revenues and contractual adjustments. Contractual adjustments are the estimated amounts the Hospital will not collect from Medicare, Medicaid, and insurance companies.

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Total patient service revenues .....	\$107,247,493	\$101,978,427	\$89,282,333
Contractual adjustments .....	(52,910,182)	(49,927,457)	(42,941,437)
Contractual adjustment as percent of revenues .....	<u>49.3%</u>	<u>49.0%</u>	<u>48.1%</u>



SPENCER MUNICIPAL HOSPITAL  
MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

The following table presents the relative percentages of gross charges billed for patient services by payor for the years ended June 30, 2008, 2007, and 2006.

Table 3

Payor Mix by Percentage

	Year Ended June 30,		
	<u>2008</u>	<u>2007</u>	<u>2006</u>
Medicare .....	51.32%	53.48%	53.87%
Wellmark/Blue Cross/Blue Shield .....	23.03	21.16	21.93
Managed Care/Commercial .....	11.34	10.94	12.62
Medicaid .....	6.89	7.58	8.38
All other .....	<u>7.42</u>	<u>6.84</u>	<u>3.20</u>
<b>TOTAL</b>	<u><b>100.00%</b></u>	<u><b>100.00%</b></u>	<u><b>100.00%</b></u>

Salaries - Salaries increased by \$352,048 in 2008 and \$1,423,153 in 2007. For the fiscal year ended June 30, 2008, the Hospital employed a total of 471 full-time equivalent employees, compared to 471 in 2007 and 457 in 2006. The Hospital is in a competitive wage market and annually utilizes numerous surveys to ensure a competitive compensation package is offered to employees.

Employee Benefits - Benefits increased by \$430,591 in 2008 and \$726,797 in 2007. The Hospital offers a comprehensive benefit package to its employees. Benefits include but are not limited to health insurance, short and long-term disability, IPERS, and life insurance.

Cash Flows - The Hospital's cash flows are consistent with the changes in operating income and financial performance, as discussed earlier.

### Capital Assets

At June 30, 2008, the Hospital had \$95,140,571 invested in capital assets as shown in Table 4. The \$7,630,693 increase in capital assets is primarily a result of increases in buildings, construction in progress, and equipment. Construction in progress decreased by \$1,162,537 primarily due to the 2008 capitalization of the Diagnostic Imaging remodel project and the Pharmacy and Rehab relocation project.

At June 30, 2007, the Hospital had \$87,509,878 invested in capital assets as shown in Table 4. The \$7,286,021 increase in capital assets is primarily a result of increases in buildings, construction in progress, and equipment. Construction in progress decreased by \$3,236,826 primarily due to the capitalization of several projects begun in previous years.

SPENCER MUNICIPAL HOSPITAL  
MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

The following table summarizes the Hospital's capital assets as of June 30, 2008, 2007, and 2006.

Table 4

Capital Assets

	<u>June 30, 2008</u>	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Land .....	\$ 2,011,733	\$ 2,011,733	\$ 1,558,997
Land improvements .....	1,270,655	882,786	865,688
Buildings .....	44,816,977	41,491,452	37,032,945
Fixed equipment .....	8,870,802	8,700,966	8,509,448
Major movable equipment .....	37,190,143	32,280,143	26,877,155
Construction in progress .....	<u>980,261</u>	<u>2,142,798</u>	<u>5,379,624</u>
Subtotal	95,140,571	87,509,878	80,223,857
Less accumulated depreciation .....	<u>42,907,325</u>	<u>37,846,954</u>	<u>33,677,238</u>
 CAPITAL ASSETS - NET	 <u>\$52,233,246</u>	 <u>\$49,662,924</u>	 <u>\$46,546,619</u>

**Long-Term Debt and Capital Leases**

At June 30, 2008, the Hospital had \$13,370,360 in long-term debt related to the construction of the surgical center. Also, during 2008, a new loan was established for financing cancer treatment equipment in the amount of \$2,652,000; the long-term balance of this loan was \$1,885,040 at June 30, 2008. Total long-term debt was \$15,255,400 as of June 30, 2008 which was an increase of \$477,632 during 2008 due to the new loan discussed above and the principal payments made during the year. More detailed information about the Hospital's outstanding debt is presented in the financial statement notes. Total long-term debt (excluding current portion) represents 65.9% and 62.1% of the Hospital's total liabilities as of June 30, 2008 and 2007, respectively.

**Performance Compared to Budget**

During the fiscal year ended June 30, 2008, the Hospital re-evaluated the budgetary figures for changes in patient volumes, related expenses, and investment income/losses. Accordingly, on June 16, 2008, the Board of Trustees approved an amended budget which increased operating revenue by \$5,100,000, increased expenses by \$3,270,000, and decreased non-operating revenue by \$1,150,000. Final comparisons of actual revenues and expenses to amended budgeted amounts yielded total operating revenue being under budget by \$1,060,709 and operating expenditures under budget by \$1,729,748.

SPENCER MUNICIPAL HOSPITAL  
MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

The following table compares fiscal year 2008 actual to budget information for the statement of revenues, expenses, and changes in net assets.

Table 5

Budget vs. Actual

	FY 2008 <u>Budget</u>	FY 2008 <u>Actual</u>	Dollar Variance <u>Fav (Unfav)</u>
Net patient service revenue	\$ 56,050,000	\$54,337,311	\$ (1,712,689)
Other operating revenue .....	<u>3,320,000</u>	<u>3,971,980</u>	<u>651,980</u>
Total operating revenue	59,370,000	58,309,291	(1,060,709)
Operating expenses .....	<u>57,440,000</u>	<u>55,710,252</u>	<u>1,729,748</u>
Operating income	1,930,000	2,599,039	669,039
Nonoperating income and contributions .....	<u>(50,000)</u>	<u>(894,892)</u>	<u>(844,892)</u>
Excess of revenues over expenses	<u>\$ 1,880,000</u>	<u>\$ 1,704,147</u>	<u>\$ (175,853)</u>

### Economic and Other Factors and Next Year's Budget

The Hospital's Board and management considered many factors when setting the fiscal year 2009 budget. Of primary importance in setting the 2009 budget is the status of the economy, which takes into account market forces and environmental factors such as:

- Medicare and Medicaid reimbursement rates
- Privacy legislation (HIPAA)
- Increased expectations for quality at a lower price
- Workforce shortages
- Cost of supplies
- Surging drug costs
- Increasing number of uninsured patients
- Increasing insurance deductibles

### Patient Satisfaction; Community Contribution

The Hospital's leadership believes that employees working in a positive environment provide great customer services; yielding satisfied patients.

The Hospital subscribes to a national service, Press Ganey, which performs patient satisfaction surveys for more than 1,000 hospitals across the country. During quarters of the fiscal year 2008, the Hospital achieved the following percentiles:

Quarter ended 10/31/07	99 <sup>th</sup> Percentile
Quarter ended 01/31/08	98 <sup>th</sup> Percentile
Quarter ended 04/30/08	93 <sup>rd</sup> Percentile
Quarter ended 07/31/08	98 <sup>th</sup> Percentile

**SPENCER MUNICIPAL HOSPITAL  
MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued**

During fiscal years 2008 and 2007, the Hospital contributed much to the community. Charity care and uncompensated care totaled \$2,978,640 and \$2,020,655, respectively.

The Hospital provides many services that are operated at a loss for the benefit of the communities it serves. Many of these programs are offered at no cost; a few are offered for a minimal service fee. Services offered for the benefit of these communities include: emergency services coverage at community events, wellness screenings, job shadowing/internships, various health education classes, and providing the use of facilities to community groups.

In addition, many routine services are provided by the Hospital at a loss. These include: Ambulance Services, Cardiac/Pulmonary Rehabilitation, Agrisafe - Certified Farm Safety, Home Health Programs, Best Care for Better Babies, Women's Health, and Lifeline.

**Contacting the Hospital's Finance Department**

The Hospital's financial statements are designed to present users with a general overview of the Hospital's finances and to demonstrate the Hospital's accountability. The Hospital's component unit, Abben Cancer Center, LLC, has prepared separate financial statements. If you have questions about the report, the Hospital's report, or need additional financial information, please contact the finance department at Spencer Municipal Hospital, 1200 First Avenue East, Spencer, Iowa 51301.

SPENCER MUNICIPAL HOSPITAL  
BALANCE SHEETS  
JUNE 30, 2008 AND 2007

ASSETS

	<u>2008</u>	<u>2007</u>
CURRENT ASSETS:		
Cash and cash equivalents (Note 2) .....	\$10,177,954	\$ 9,588,649
Patient receivables (less allowance for doubtful accounts and contractual adjustments of \$7,396,500 and \$7,641,500, respectively) .....	5,941,527	7,964,150
Other receivables (Note 8) .....	554,322	643,749
Investments (Note 2) .....	6,607,594	6,530,361
Inventory .....	2,215,270	1,867,337
Prepaid expenses .....	464,240	390,728
TOTAL CURRENT ASSETS	<u>25,960,907</u>	<u>26,984,974</u>
NONCURRENT CASH AND INVESTMENTS (Note 2):		
Restricted by board for capital improvements .....	3,864,700	4,369,611
Principal of permanent endowments (Note 11) .....	1,226,706	1,164,740
Restricted by donors for operations .....	191,842	186,189
TOTAL NONCURRENT CASH AND INVESTMENTS	<u>5,283,248</u>	<u>5,720,540</u>
CAPITAL ASSETS (Notes 4, 6, 9, and 10):		
Land .....	2,011,733	2,011,733
Construction in progress .....	980,261	2,142,798
Depreciable property, plant, and equipment .....	92,148,577	83,355,347
TOTAL CAPITAL ASSETS	95,140,571	87,509,878
Less accumulated depreciation .....	42,907,325	37,846,954
CAPITAL ASSETS - NET	<u>52,233,246</u>	<u>49,662,924</u>
OTHER ASSETS:		
Investment in Abben (Notes 8 and 9) .....	689,069	741,196
Deferred finance costs - net of accumulated amortization of \$33,840 and \$25,646, respectively .....	84,308	82,974
TOTAL OTHER ASSETS	<u>773,377</u>	<u>824,170</u>
 TOTAL ASSETS	 <u>\$84,250,778</u>	 <u>83,192,608</u>

SPENCER MUNICIPAL HOSPITAL  
BALANCE SHEETS - Continued  
JUNE 30, 2008 AND 2007

LIABILITIES AND NET ASSETS

	<u>2008</u>	<u>2007</u>
<b>CURRENT LIABILITIES:</b>		
Current portion of long-term debt (Note 6) .....	\$ 1,931,029	\$ 1,407,408
Accounts payable .....	1,799,899	3,189,469
Accrued salaries and wages .....	2,617,692	2,586,635
Payroll taxes payable .....	135,363	509,213
Estimated third-party payor settlements (Note 3) .....	643,461	550,000
Other current liabilities (Note 7) .....	<u>749,360</u>	<u>757,688</u>
<b>TOTAL CURRENT LIABILITIES</b>	<b>7,876,804</b>	<b>9,000,413</b>
 LONG-TERM DEBT - NET OF CURRENT PORTION (Note 6) .....	 <u>15,255,400</u>	 <u>14,777,768</u>
<b>TOTAL LIABILITIES</b>	 <u><b>23,132,204</b></u>	 <u><b>23,778,181</b></u>
 <b>NET ASSETS:</b>		
Invested in capital assets, net of related debt .....	35,131,125	33,560,722
Net assets restricted by donor - nonexpendable (Note 11) .....	1,226,706	1,164,740
Net assets restricted by donor - expendable .....	191,842	186,189
Unrestricted net assets .....	<u>24,568,901</u>	<u>24,502,776</u>
<b>TOTAL NET ASSETS</b>	<u><b>61,118,574</b></u>	<u><b>59,414,427</b></u>
 <b>TOTAL LIABILITIES AND NET ASSETS</b>	 <u><b>\$84,250,778</b></u>	 <u><b>\$83,192,608</b></u>

SPENCER MUNICIPAL HOSPITAL  
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
OPERATING REVENUE:		
Net patient service revenue (Note 3) .....	\$54,337,311	\$52,050,970
Other operating revenue .....	3,231,597	3,046,207
Clinic revenue .....	<u>740,383</u>	<u>710,909</u>
TOTAL OPERATING REVENUE	<u>58,309,291</u>	<u>55,808,086</u>
OPERATING EXPENSES:		
Salaries .....	19,786,523	19,434,475
Employee benefits .....	6,976,855	6,546,264
Professional services .....	4,175,981	3,358,509
Prescription drugs .....	4,190,018	3,805,633
Supplies and other .....	12,126,792	12,186,837
Clinic expenses .....	973,365	971,718
Depreciation .....	5,250,877	4,379,725
Bad debts .....	<u>2,229,841</u>	<u>1,575,559</u>
TOTAL OPERATING EXPENSES	<u>55,710,252</u>	<u>52,258,720</u>
OPERATING INCOME	<u>2,599,039</u>	<u>3,549,366</u>
NONOPERATING INCOME (EXPENSES):		
Interest income .....	411,147	600,177
Investment income (loss) - net of related expenses .....	(869,410)	1,237,581
Interest expense .....	(761,519)	(850,585)
Loss on sale of equipment and real estate .....	(106,029)	(3,019)
Scholarships granted .....	<u>(10,150)</u>	<u>(600)</u>
NET NONOPERATING INCOME (LOSS)	<u>(1,335,961)</u>	<u>983,554</u>
EXCESS OF REVENUES AND INCOME OVER EXPENSES	1,263,078	4,532,920
CAPITAL GRANTS AND CAPITAL CONTRIBUTIONS .....	<u>441,069</u>	<u>446,100</u>
CHANGE IN NET ASSETS	1,704,147	4,979,020
TOTAL NET ASSETS - BEGINNING OF YEAR (Note 11) .....	<u>59,414,427</u>	<u>54,435,407</u>
TOTAL NET ASSETS - END OF YEAR	<u>\$61,118,574</u>	<u>\$59,414,427</u>

SPENCER MUNICIPAL HOSPITAL  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from patients and third parties .....	\$54,963,937	\$50,317,618
Cash paid to suppliers for goods and services .....	(22,022,750)	(20,695,685)
Cash paid to employees for services .....	(27,106,171)	(25,430,529)
Other operating revenues .....	1,873,151	1,556,414
Other amounts paid .....	(10,150)	(600)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>7,698,017</u>	<u>5,747,218</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Capital asset purchases .....	(9,191,614)	(7,144,009)
Proceeds from sale of equipment and real estate .....	13,386	20,960
Principal payments on long-term debt .....	(1,650,747)	(1,450,602)
Proceeds from long-term debt .....	2,652,000	
Interest paid on long-term debt .....	(765,074)	(843,340)
Payments for deferred finance costs .....	(9,528)	
Capital grants and contributions received .....	<u>441,069</u>	<u>446,100</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(8,510,508)</u>	<u>(8,970,891)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of investments .....	(5,319,721)	(2,435,917)
Proceeds from sale and maturities of investments .....	4,203,571	1,442,083
Income on investments .....	512,654	676,220
Distributions from Abben .....	<u>1,500,000</u>	<u>1,625,000</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>896,504</u>	<u>1,307,386</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>84,013</b>	<b>(1,916,287)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR .....</b>	<b><u>14,493,525</u></b>	<b><u>16,409,812</u></b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b><u>\$14,577,538</u></b>	<b><u>\$14,493,525</u></b>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE BALANCE SHEETS:</b>		
Cash and cash equivalents per balance sheets:		
Current assets .....	\$10,177,954	\$ 9,588,649
Noncurrent assets .....	<u>4,399,584</u>	<u>4,904,876</u>
<b>TOTAL CASH AND CASH EQUIVALENTS</b>	<b><u>\$14,577,538</u></b>	<b><u>\$14,493,525</u></b>



SPENCER MUNICIPAL HOSPITAL  
STATEMENTS OF CASH FLOWS - Continued  
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income .....	\$ 2,599,039	\$ 3,549,366
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation .....	5,250,877	4,379,725
Equity in earnings of Abben .....	(1,447,873)	(1,416,472)
Components of non-operating and operating expenses reclassified for purposes of reporting cash flows:		
Scholarships awarded .....	(10,150)	(600)
(Increase) decrease in:		
Net patient receivables .....	2,022,623	(868,702)
Other receivables .....	89,427	(73,321)
Inventory .....	(347,933)	(246,485)
Prepaid expenses .....	(73,512)	(177,111)
Increase (decrease) in:		
Accounts payable .....	(138,570)	289,893
Accrued salaries and wages .....	31,057	393,472
Payroll taxes payable .....	(373,850)	156,738
Amounts due to contracting agencies .....	93,461	-
Other current liabilities .....	<u>3,421</u>	<u>(239,285)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 7,698,017</u>	<u>\$ 5,747,218</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Capital asset purchases .....	\$ 8,325,825	\$ 7,520,009
(Increase) decrease in construction accounts payable .....	1,251,000	(376,000)
Less net book value of assets traded in .....	<u>(385,211)</u>	<u>                    </u>
Cash paid to purchase capital assets	<u>\$ 9,191,614</u>	<u>\$ 7,144,009</u>

ABBEN CANCER CENTER, LLC  
(A Component Unit of Spencer Municipal Hospital)  
BALANCE SHEETS  
JUNE 30, 2008 AND 2007

ASSETS

	<u>2008</u>	<u>2007</u>
CURRENT ASSETS:		
Cash .....	\$ 317,041	\$ 335,520
Patient accounts receivable, net of allowance for doubtful accounts and contractual adjustments of \$531,300 in 2008 and \$711,800 in 2007 .....	241,845	307,415
Nontrade receivable .....		5,220
Prepaid expenses .....	<u>7,004</u>	<u>42,612</u>
 TOTAL ASSETS	 <u>\$ 565,890</u>	 <u>\$ 690,767</u>

LIABILITIES AND MEMBER'S EQUITY

CURRENT LIABILITIES:		
Accounts payable .....	\$ 38,238	\$ 50,801
Accounts payable to Spencer Municipal Hospital (Note 8) .....	<u>95,049</u>	<u>155,236</u>
TOTAL CURRENT LIABILITIES	133,287	206,037
 MEMBER'S EQUITY .....	 <u>432,603</u>	 <u>484,730</u>
 TOTAL LIABILITIES AND MEMBER'S EQUITY	 <u>\$ 565,890</u>	 <u>\$ 690,767</u>

ABBEN CANCER CENTER, LLC  
 (A Component Unit of Spencer Municipal Hospital)  
 STATEMENTS OF INCOME AND MEMBER'S EQUITY  
 FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
NET PATIENT SERVICE REVENUE .....	\$3,355,690	\$3,470,793
OPERATING EXPENSES (Note 8):		
Professional medical services .....	1,213,705	1,318,134
Medical supplies .....	12,393	16,998
Facility expenses .....	541,822	593,539
General and administrative .....	154,366	148,511
TOTAL OPERATING EXPENSES	<u>1,922,286</u>	<u>2,077,182</u>
OPERATING INCOME .....	<u>1,433,404</u>	<u>1,393,611</u>
NONOPERATING INCOME:		
Interest income .....	9,424	17,008
Contributions and other income .....	5,045	5,853
TOTAL NONOPERATING INCOME	<u>14,469</u>	<u>22,861</u>
NET INCOME	1,447,873	1,416,472
MEMBER'S EQUITY - BEGINNING OF YEAR .....	484,730	693,258
DISTRIBUTIONS .....	<u>(1,500,000)</u>	<u>(1,625,000)</u>
MEMBER'S EQUITY - END OF YEAR	<u>\$ 432,603</u>	<u>\$ 484,730</u>

ABBEN CANCER CENTER, LLC  
 (A Component Unit of Spencer Municipal Hospital)  
 STATEMENTS OF CASH FLOWS  
 FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income .....	\$1,447,873	\$1,416,472
Adjustments to reconcile net income to net cash provided by operating activities:		
Decrease in patient accounts receivable .....	65,570	92,689
(Increase) decrease in other current assets .....	40,828	(13,663)
Decrease in accounts payable .....	(12,563)	(33,221)
Decrease in accounts payable to Spencer Municipal Hospital .....	(60,187)	(20,604)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,481,521</u>	<u>1,441,673</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Distributions .....	<u>(1,500,000)</u>	<u>(1,625,000)</u>
NET CASH USED BY FINANCING ACTIVITIES	<u>(1,500,000)</u>	<u>(1,625,000)</u>
NET DECREASE IN CASH	(18,479)	(183,327)
CASH AT BEGINNING OF YEAR .....	<u>335,520</u>	<u>518,847</u>
CASH AT END OF YEAR	<u>\$ 317,041</u>	<u>\$ 335,520</u>

SPENCER MUNICIPAL HOSPITAL AND  
ABBEN CANCER CENTER, LLC  
NOTES TO FINANCIAL STATEMENTS

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity and Nature of Business**

Spencer Municipal Hospital (the Hospital) is a city public hospital organized under Chapter 392.6 of the Code of Iowa. The Hospital is governed by a five-member board of trustees elected by the residents of Spencer for terms of four years. The Hospital provides primary and secondary health care services through the operation of an acute care hospital in Spencer, Iowa, two medical clinics, and other comprehensive health care programs. The majority of the Hospital's patients are from Spencer and northwest Iowa.

For financial reporting purposes, the Hospital is considered a primary government. A primary government is a legal entity or body politic and includes all funds, organizations, institutions, agencies, departments, and offices that are not legally separate. Legally separate entities that meet certain requirements are referred to as component units.

Abben Cancer Center, LLC (Abben) is a legally separate wholly-owned limited liability company that is considered a discretely presented component unit of the Hospital. Abben was organized on June 20, 1996 and shall continue in existence until June 20, 2026 unless dissolved sooner in accordance with its operating agreement. Its financial statements are separately presented on pages 16 through 18. Abben is a medical clinic that operates a cancer treatment center on the Hospital's campus.

**Basis of Accounting**

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. Revenues are recognized when earned and expenses are recorded when the liability is incurred.

In reporting the financial activity of its proprietary funds, the Hospital applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures.

**Cash and Cash Equivalents**

For purposes of the statements of cash flows, savings accounts, money market mutual funds, and all other highly liquid investments (including restricted assets) with original maturities of three months or less are considered cash equivalents.

**Noncurrent Cash and Investments**

Noncurrent cash and investments include funds restricted by donors for capital improvements or specific operations of the Hospital; permanently endowed funds; and assets set aside by the Board of Trustees for identified purposes and over which the Board retains control and may, at its discretion, subsequently use for other purposes.

Permanent endowments require that the principal be retained in perpetuity.

SPENCER MUNICIPAL HOSPITAL AND  
ABBEN CANCER CENTER, LLC  
NOTES TO FINANCIAL STATEMENTS - Continued

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Patient Receivables**

Patient receivables are shown at the amount expected to be collected after estimating the allowance for doubtful accounts based on an aging of all the individual patient balances and estimating the contractual adjustments. Retroactively-calculated third party contractual adjustments are accrued on an estimated basis in the period the related services are rendered.

**Inventory**

Inventory is valued at the lower of cost or market using the first-in, first-out method and consists primarily of patient supplies, including pharmaceuticals and operating supplies.

**Capital Assets**

Capital assets are stated at cost less accumulated depreciation. Depreciation is provided using the straight-line method over the estimated useful lives of the assets in accordance with the guidelines set forth by the American Hospital Association. Lives for the buildings and land improvements are five to fifty years while the equipment lives range from three to twenty years. Amortization of assets capitalized under lease obligations is included in depreciation expense.

**Investments**

Investments in common stocks and real estate held in the permanently endowed funds are carried at fair value based on quoted market prices or third-party appraisals. Investments in real estate not in the endowed funds are carried at cost. Donated investments are reported at fair value at the date of receipt, which is then treated as cost.

The Hospital's investment in Abben is accounted for by using the equity method, where the Hospital records its share of the earnings or losses. The investment in Abben was approximately \$256,000 greater than the underlying member's equity at June 30, 2008 and 2007. The difference is attributable to goodwill which is tested for impairment on an annual basis.

**Deferred Finance Costs**

Deferred finance costs are stated at cost and are amortized over the term of the revenue bonds using the straight-line method. Amortization expense during the construction period was capitalized in the same manner as interest expense.

**Operating Revenues and Expenses**

The Hospital and Abben's statements of revenues, expenses and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services. Nonexchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services.

SPENCER MUNICIPAL HOSPITAL AND  
ABBEN CANCER CENTER, LLC  
NOTES TO FINANCIAL STATEMENTS - Continued

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Net Patient Service Revenue**

Net patient service revenue and clinic revenue are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

**Interest and Investment Income**

Interest and investment income are recorded as non-operating revenue. Investment income includes dividends, net rental income, and gains and losses, both realized and unrealized, on equity securities and real estate in the permanently endowed funds.

**Interest Expense**

Interest costs incurred on borrowed funds during the construction period of capital assets were capitalized as a component of the constructed assets. All of the borrowings from revenue bonds have been used to fund construction projects and equipment purchases.

**Net Assets**

Net assets are presented in the following categories:

*Invested in capital assets, net of related debt* consist of capital assets, net of accumulated depreciation and reduced by the outstanding balances of long-term debt that are attributable to the acquisition, construction, or improvement of those assets.

*Restricted nonexpendable net assets* consist of the principal portion of permanent endowments.

*Restricted expendable net assets* consist of noncapital net assets that must be used for a particular purpose as specified by the donors.

*Unrestricted net assets* consist of net assets not meeting the definition of the three preceding categories. Unrestricted net assets often have constraints on resources imposed by management or the board of trustees which can be removed or modified.

**Charity Care and Community Benefits**

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. The Hospital maintains records to identify and monitor the level of charity it provides. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenue. The amount of charges forgone, based on established rates, for 2008 and 2007, were \$748,799 and \$445,096, respectively. The costs of charity care are estimated to be \$332,000 and \$201,000 for 2008 and 2007, respectively. Costs are estimated by using the most recent cost to charge ratio available at the end of the year.

SPENCER MUNICIPAL HOSPITAL AND  
ABBEN CANCER CENTER, LLC  
NOTES TO FINANCIAL STATEMENTS - Continued

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Charity Care and Community Benefits - Continued**

The Hospital provides many services that are operated at a loss for the benefit of the communities it serves. Many of these programs are offered at no cost; a few are offered for a minimal service fee. Services offered for the benefit of the communities include: emergency services presence at community events, wellness screenings, job shadowing/internships, various health education classes, and providing the use of facilities to community groups.

In addition, many routine services are provided by the Hospital at a loss. These include Ambulance Services, Cardiac/Pulmonary Rehabilitation, Agrisafe - Certified Farm Safety, Home Health Programs, Best Care for Better Babies, Women's Health, and Lifeline services.

**Income Taxes**

The Hospital is exempt from federal and state income taxes on related income pursuant to Section 501(a) of the Internal Revenue Code of 1986. Abben is not a tax paying entity for federal and state income tax purposes; and therefore, no income tax expenses have been recorded in its financial statements.

**Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Reclassification**

Certain amounts in the 2007 financial statements have been reclassified to conform to 2008's presentation.

**2. CASH AND INVESTMENTS**

The Hospital's deposits at June 30, 2008 and 2007 were entirely covered by FDIC or SIPC insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This Chapter provides for additional assessments against members of the pool to insure there will be no loss of public funds. At June 30, 2008 and 2007, Abben had uninsured bank balances of \$211,320 and \$187,554, respectively.

The Hospital is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees of the Hospital; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; investments in common stocks; and warrants or improvement certificates of a drainage district.



SPENCER MUNICIPAL HOSPITAL AND  
 ABBEN CANCER CENTER, LLC  
 NOTES TO FINANCIAL STATEMENTS - Continued

**2. CASH AND INVESTMENTS - Continued**

The Hospital's cash and investments at June 30, 2008 and 2007 are as follows:

	<u>2008</u>	<u>2007</u>
Cash and cash equivalents .....	\$14,577,538	\$14,493,525
Common stocks .....	6,607,594	6,530,361
Real estate .....	<u>883,664</u>	<u>815,664</u>
<b>TOTAL CASH AND INVESTMENTS</b>	<b><u>\$22,068,796</u></b>	<b><u>\$21,839,550</u></b>

The cash and investments shown above are included in the Hospital's balance sheets as follows:

	<u>2008</u>	<u>2007</u>
Current assets:		
Cash and cash equivalents .....	\$10,177,954	\$ 9,588,649
Investments - common stocks .....	<u>6,607,594</u>	<u>6,530,361</u>
Subtotal	<u>16,785,548</u>	<u>16,119,010</u>
Noncurrent cash and investments:		
Cash and cash equivalents .....	4,399,584	4,904,876
Real estate .....	<u>883,664</u>	<u>815,664</u>
Subtotal	<u>5,283,248</u>	<u>5,720,540</u>
<b>TOTAL CASH AND INVESTMENTS</b>	<b><u>\$22,068,796</u></b>	<b><u>\$21,839,550</u></b>

Common stock investments and real estate held in the permanently endowed fund are carried at fair value. The net unrealized gains on investments at June 30, 2008 and 2007 are as follows:

	<u>2008</u>	<u>2007</u>
Common stocks .....	\$ 44,320	\$ 1,475,842
Real estate .....	<u>624,894</u>	<u>556,894</u>
<b>Total</b>	<b><u>\$ 669,214</u></b>	<b><u>\$ 2,032,736</u></b>

In accordance with its investment policy, the Hospital manages its exposure to declines in fair values by owning investments with various maturities. These investments include fixed money market accounts, certificates of deposit, and equity securities. The Hospital's philosophy for investing funds allows for fluctuation in yearly returns without putting the Hospital's ability to meet current expenditures at risk.

The Hospital's investment policy also limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the Hospital.

SPENCER MUNICIPAL HOSPITAL AND  
 ABBEN CANCER CENTER, LLC  
 NOTES TO FINANCIAL STATEMENTS - Continued

**3. NET PATIENT SERVICE REVENUE**

As a provider of health care services, the Hospital and Abben have agreements with third-party payors that provide for payment of services at amounts different from established rates. The basis for payment varies by payor and includes prospectively determined rates per discharge, discounts from established charges, and retroactively determined cost-based rates. Approximately 92 percent of the Hospital's gross patient charges determined at established rates for the years ended June 30, 2008 and 2007 resulted from patients covered by these third-party reimbursement programs. Significant changes have been made and may be made in certain of these programs which could have a material adverse impact on the financial condition of the Hospital and Abben in future years.

The following summarizes the differences between the Hospital's gross patient service revenue determined at established rates and net patient service revenue:

	<u>2008</u>	<u>2007</u>
Gross patient service revenue - at established rates .	<u>\$107,247,493</u>	<u>\$101,978,427</u>
Adjustments:		
Medicare program .....	34,888,463	34,914,097
Medicaid program .....	5,065,279	4,928,912
Blue Cross/Wellmark .....	9,650,051	7,781,205
Other payors .....	2,557,590	1,858,147
Charity care .....	<u>748,799</u>	<u>445,096</u>
Total Adjustments	<u>52,910,182</u>	<u>49,927,457</u>
Net Patient Service Revenue	<u>\$ 54,337,311</u>	<u>\$ 52,050,970</u>

SPENCER MUNICIPAL HOSPITAL AND  
 ABBEN CANCER CENTER, LLC  
 NOTES TO FINANCIAL STATEMENTS - Continued

**4. CAPITAL ASSETS**

A summary of the Hospital's changes in capital assets for 2008 and 2007 is as follows:

	Year Ended June 30, 2008			
	Beginning Balance	Additions	Disposals and Transfers - Net	Ending Balance
Capital assets not being depreciated:				
Land .....	\$ 2,011,733			\$ 2,011,733
Construction in progress .....	<u>2,142,798</u>	<u>\$6,328,966</u>	<u>\$(7,491,503)</u>	<u>980,261</u>
Total capital assets not being depreciated	<u>4,154,531</u>	<u>6,328,966</u>	<u>(7,491,503)</u>	<u>2,991,994</u>
Other capital assets:				
Land improvements .....	882,786	3,971	383,898	1,270,655
Buildings .....	41,491,452	248,946	3,076,579	44,816,977
Fixed equipment .....	8,700,966	169,836		8,870,802
Major moveable equipment ..	<u>32,280,143</u>	<u>1,574,106</u>	<u>3,335,894</u>	<u>37,190,143</u>
Total other capital assets	<u>83,355,347</u>	<u>1,996,859</u>	<u>6,796,371</u>	<u>92,148,577</u>
Total capital assets	<u>87,509,878</u>	<u>8,325,825</u>	<u>(695,132)</u>	<u>95,140,571</u>
Less accumulated depreciation for:				
Land improvements .....	529,494	79,046		608,540
Buildings .....	10,064,876	1,487,128	(47,961)	11,504,043
Fixed equipment .....	5,926,397	323,708		6,250,105
Major moveable equipment ..	<u>21,326,187</u>	<u>3,360,995</u>	<u>(142,545)</u>	<u>24,544,637</u>
Total accumulated depreciation	<u>37,846,954</u>	<u>5,250,877</u>	<u>(190,506)</u>	<u>42,907,325</u>
CAPITAL ASSETS - NET	<u>\$49,662,924</u>	<u>\$3,074,948</u>	<u>\$ (504,626)</u>	<u>\$52,233,246</u>

SPENCER MUNICIPAL HOSPITAL AND  
 ABBEN CANCER CENTER, LLC  
 NOTES TO FINANCIAL STATEMENTS - Continued

**4. CAPITAL ASSETS - Continued**

	Year Ended June 30, 2007			
	Beginning Balance	Additions	Disposals and Transfers - Net	Ending Balance
Capital assets not being depreciated:				
Land .....	\$ 1,558,997		\$ 452,736	\$ 2,011,733
Construction in progress .....	<u>5,379,624</u>	<u>\$6,099,368</u>	<u>(9,336,194)</u>	<u>2,142,798</u>
Total capital assets not being depreciated	<u>6,938,621</u>	<u>6,099,368</u>	<u>(8,883,458)</u>	<u>4,154,531</u>
Other capital assets:				
Land improvements .....	865,688	5,535	11,563	882,786
Buildings .....	37,032,945	12,203	4,446,304	41,491,452
Fixed equipment .....	8,509,448		191,518	8,700,966
Major moveable equipment ..	<u>26,877,155</u>	<u>1,402,903</u>	<u>4,000,085</u>	<u>32,280,143</u>
Total other capital assets	<u>73,285,236</u>	<u>1,420,641</u>	<u>8,649,470</u>	<u>83,355,347</u>
Total capital assets	<u>80,223,857</u>	<u>7,520,009</u>	<u>(233,988)</u>	<u>87,509,878</u>
Less accumulated depreciation for:				
Land improvements .....	479,624	49,870		529,494
Buildings .....	8,799,142	1,328,255	(62,521)	10,064,876
Fixed equipment .....	5,600,006	326,391		5,926,397
Major moveable equipment ..	<u>18,798,466</u>	<u>2,675,209</u>	<u>(147,488)</u>	<u>21,326,187</u>
Total accumulated depreciation	<u>33,677,238</u>	<u>4,379,725</u>	<u>(210,009)</u>	<u>37,846,954</u>
CAPITAL ASSETS - NET	<u>\$46,546,619</u>	<u>\$3,140,284</u>	<u>\$ (23,979)</u>	<u>\$49,662,924</u>

Included in major moveable equipment is medical equipment capitalized under the lease obligation described in Note 6. The cost of the equipment and the related accumulated depreciation was \$1,150,000 at June 30, 2008 and 2007.

**5. RETIREMENT PLAN**

The Hospital contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa 50306-9117.

SPENCER MUNICIPAL HOSPITAL AND  
ABBEN CANCER CENTER, LLC  
NOTES TO FINANCIAL STATEMENTS - Continued

**5. RETIREMENT PLAN - Continued**

Plan members are required to contribute 3.90% of their annual covered salary and the Hospital is required to contribute 6.05% of annual covered payroll for 2008. For 2007 and 2006, the member contribution rate was 3.70%, and the Hospital contribution rate was 5.75%. Contribution requirements are established by state statute. The Hospital's contributions to IPERS for 2008, 2007, and 2006 were \$1,209,171, \$1,143,736, and \$1,087,287, respectively, equal to the required contributions for each year.

**6. LONG-TERM DEBT**

The Hospital's long-term debt activity as of and for the years ended June 30, 2008 and 2007 is as follows:

	June 30, 2007	Borrowings	Payments	June 30, 2008	Due Within One Year
2003 Hospital Revenue Bonds, Series A (A) .....	\$ 8,518,528	\$ -	\$ (740,736)	\$ 7,777,792	\$ 740,736
2003 Hospital Revenue Bonds, Series B (B) .....	7,666,648	-	(666,672)	6,999,976	666,672
2007 Hospital Revenue Bonds (C) .....	-	2,652,000	(243,339)	2,408,661	523,621
	<u>\$16,185,176</u>	<u>\$2,652,000</u>	<u>\$ (1,650,747)</u>	<u>\$17,186,429</u>	<u>\$1,931,029</u>

	June 30, 2006	Borrowings	Payments	June 30, 2007	Due Within One Year
2003 Hospital Revenue Bonds, Series A (A) .....	\$ 9,259,264	\$ -	\$ (740,736)	\$ 8,518,528	\$ 740,736
2003 Hospital Revenue Bonds, Series B (B) .....	8,333,320	-	(666,672)	7,666,648	666,672
Capital lease obligations (D) .....	43,194	-	(43,194)	-	-
	<u>\$17,635,778</u>	<u>\$ -</u>	<u>\$ (1,450,602)</u>	<u>\$16,185,176</u>	<u>\$1,407,408</u>

- (A) Series A revenue bonds allowed borrowings up to \$10 million through June 30, 2005. Interest only monthly payments at variable rates set at 77.1% of a LIBOR rate plus 2.25% (3.63% and 5.84% at June 30, 2008 and 2007, respectively) adjustable monthly were due through June 30, 2005 with monthly principal payments of \$61,728 plus interest due thereafter through November 2018.
- (B) Series B revenue bonds with monthly principal payments of \$55,556 through December 2018 plus interest at 4.02%. The interest rate is fixed for 5 year increments; to be reset in 2008 and 2013 at 77.1% of the 5-year U.S. Treasury constant maturity rate plus 2%.
- (C) Revenue bonds with monthly principal and interest payments of \$48,668 through January 2013 at a fixed interest rate of 3.8%.
- (D) Capital lease obligation for medical equipment with 60 monthly payments of \$21,739 through September 2006 at an annual imputed interest rate of 5.25%.

SPENCER MUNICIPAL HOSPITAL AND  
 ABBEN CANCER CENTER, LLC  
 NOTES TO FINANCIAL STATEMENTS - Continued

**6. LONG-TERM DEBT - Continued**

The maturities and payment components of the Hospital's long-term debt are as follows:

Year Ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 1,931,029	\$ 622,431	\$ 2,553,460
2010	1,927,904	548,953	2,476,857
2011	1,948,316	474,852	2,423,168
2012	1,969,479	400,001	2,369,480
2013	1,668,973	327,105	1,996,078
2014 - 2018	7,037,040	816,515	7,853,555
2019	<u>703,688</u>	<u>7,830</u>	<u>711,518</u>
TOTAL	<u>\$17,186,429</u>	<u>\$3,197,687</u>	<u>\$20,384,116</u>

The revenue bonds were issued under the provisions of Chapter 384.24A of the Code of Iowa and as such the principal and interest payments are payable solely from the revenues of the Hospital and do not constitute a liability or obligation of the City of Spencer. As allowed for in the 2003 bond resolution, the 2007 bonds are payable from the same source as the 2003 bonds. The Hospital has pledged future revenues, net of defined expenses, to repay the bonds. For the current year, principal and interest paid on the revenue bonds and the net pledged revenues (as defined in the agreement) were \$2,415,821 and \$4,716,543, respectively. The bond proceeds have been used to finance building additions, building improvements, and purchase medical equipment.

**7. RISK MANAGEMENT**

The Hospital and Abben are exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illness; natural disasters; and employee health and accident benefits. Certain of these risks are covered by commercial insurance purchased from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

The Hospital is self-insured for the following types of risk exposures:

**Health Benefits**

The Hospital has established an Employee Health Insurance Plan that self insures health benefits. Self-insurance is in effect up to a specific stop loss amount of \$70,000 per individual (\$125,000 on a specific individual) and an aggregate stop loss amount of approximately \$4,090,000. Coverage from private insurance companies is maintained for losses in excess of the aggregate stop loss amount up to a maximum of \$1,000,000 per policy period. Claims handling procedures are performed by an independent claims administrator. Losses are accrued based upon the Hospital's estimates of the aggregate liability for claims incurred using certain assumptions followed in the insurance industry and based on the Hospital's experience. The amounts of unpaid claims included in the financial statements were \$537,395 and \$530,152 at June 30, 2008 and 2007, respectively, and are included in other current liabilities.

SPENCER MUNICIPAL HOSPITAL AND  
ABBEN CANCER CENTER, LLC  
NOTES TO FINANCIAL STATEMENTS - Continued

**7. RISK MANAGEMENT - Continued**

**Unemployment Compensation**

The Hospital is also self-insured for unemployment compensation claims. Unemployment is charged quarterly as the state assesses the Hospital based upon actual claims paid.

**8. RELATED PARTY TRANSACTIONS**

**Spencer Regional Healthcare Foundation**

The Spencer Regional Healthcare Foundation (Foundation) is a tax-exempt non-profit organization to solicit contributions for qualifying health care facilities within a 20-mile radius of Spencer, Iowa. The Foundation is governed by an independent board, but it does include a minority number of members from the Hospital board; accordingly, the Hospital and the Foundation are considered related parties. The Foundation made charitable contributions to the Hospital in the amount of \$166,415 and \$427,612 during 2008 and 2007, respectively.

**Abben Cancer Center, LLC**

The Hospital has entered into various agreements with Abben whereby the Hospital will provide management and operating services and lease a building and related equipment to Abben. The agreements include defined methodologies to calculate the rates and are cancelable by either party 90 days prior to the anniversary date of the agreements. The following summarizes the transactions with Abben:

	<u>2008</u>	<u>2007</u>
Personnel service fees for benefits and expenses .....	\$ <u>169,289</u>	\$ <u>166,819</u>
Leased employees' salaries .....	\$ <u>426,192</u>	\$ <u>405,430</u>
Building and equipment rental income .....	\$ <u>284,146</u>	\$ <u>326,174</u>

At June 30, 2008 and 2007, the Hospital's receivable from Abben was \$95,049 and \$155,236, respectively, which is included in other receivables. The balance consists of the above fees and cash advances for direct operating expenses less cash repayments.

**Board of Trustees**

The Hospital has depository accounts at a local financial institution whose chairman is a Hospital trustee. The Hospital earned interest income of \$134,089 and \$191,553 in 2008 and 2007, respectively, on accounts held at this financial institution.

The Hospital purchased supplies of \$8,082 and \$11,239 from a company owned in part by a Hospital trustee in 2008 and 2007, respectively.

The Hospital incurred farm management fees of \$3,640 and \$3,581 from a company owned in part by a Hospital trustee in 2008 and 2007, respectively.

SPENCER MUNICIPAL HOSPITAL AND  
 ABBEN CANCER CENTER, LLC  
 NOTES TO FINANCIAL STATEMENTS - Continued

**9. OPERATING LEASES**

The Hospital has entered into noncancelable operating lease agreements involving three medical clinics. The Hospital has exercised its renewal options which have extended the leases to various dates through 2014. The rental expense for 2008 and 2007 was \$393,576 and \$356,778, respectively.

The following is a schedule of future minimum rental payments to be made:

<u>Year Ending June 30,</u>	<u>Amount</u>
2009	\$ 426,647
2010	426,647
2011	412,514
2012	384,247
2013	371,602
2014	<u>59,826</u>
<b>TOTAL</b>	<b><u>\$2,081,483</u></b>

The Hospital subleases one of the above clinics and leases office space in its medical office building to unrelated parties under noncancelable operating lease agreements. The original terms of the leases expire at various dates through 2008, have optional renewal clauses, and annual rental increase clauses to recover increased expenses. The rental income under the agreements for 2008 and 2007 was \$472,595 and \$457,326, respectively, and is included in investment income.

The following is a schedule of future minimum rental payments to be received including the subleases:

<u>Year Ending June 30,</u>	<u>Amount</u>
2009	\$ 490,280
2010	490,280
2011	490,280
2012	490,280
2013	312,616
2014	<u>167,503</u>
<b>TOTAL</b>	<b><u>\$2,441,239</u></b>

The cost and accumulated depreciation of the leased property including the property leased to Abben are as follows:

	<u>2008</u>	<u>2007</u>
Medical office building .....	\$3,306,216	\$3,306,216
Medical clinic equipment .....	189,020	97,520
Abben building .....	1,267,994	1,267,994
Abben equipment .....	2,926,985	2,922,936
Other real estate .....	-	163,949
<b>Total property and equipment</b>	<b>7,690,215</b>	<b>7,758,615</b>
Less accumulated depreciation .....	<u>4,007,144</u>	<u>3,737,268</u>
<b>Net property and equipment</b>	<b><u>\$3,683,071</u></b>	<b><u>\$4,021,347</u></b>



SPENCER MUNICIPAL HOSPITAL AND  
 ABBEN CANCER CENTER, LLC  
 NOTES TO FINANCIAL STATEMENTS - Continued

**10. COMMITMENTS**

The Hospital has entered into various agreements that have committed the Hospital to future payments. The commitments include construction agreements, binding equipment purchase orders, supplemental payments to a physicians' group, equipment maintenance agreements, and physician recruiting agreements. The total amount expected to be paid in 2009 on these commitments is approximately \$5,900,000.

**11. CHANGE IN ACCOUNTING**

In 2008, the Hospital retroactively adopted, effective July 1, 2006, the provisions of Statement No. 52 of the Governmental Accounting Standards Board (GASB 52). In accordance with GASB 52, the Hospital has reported its real estate investment in its permanently endowed fund at its fair value. Changes in fair value during the year have been reported in investment income. The amounts included in the 2007 financial statements that have been adjusted to conform to this new standard are as follows:

	<u>Pre GASB 52</u>	<u>GASB 52 Adoption Adjustment</u>	<u>Post GASB 52</u>
Balance Sheet:			
Principal of permanent endowments and net assets restricted by donor-nonexpendable ....	\$ 607,846	\$ 556,894	\$ 1,164,740
Total net assets .....	58,857,533	556,894	59,414,427
Statement of revenues, expenses, and changes in net assets:			
Investment income (loss) - net of related expenses	1,121,581	116,000	1,237,581
Change in net assets .....	4,863,020	116,000	4,979,020
Total net assets at the beginning on the year .....	53,994,513	440,894	54,435,407

The statement of cash flows was not impacted by this accounting change.

**SPENCER MUNICIPAL HOSPITAL  
REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2008**

SPENCER MUNICIPAL HOSPITAL  
BUDGETARY COMPARISON SCHEDULE AND RELATED NOTES  
FOR THE YEAR ENDED JUNE 30, 2008

	Original <u>Budget</u>	Final <u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Net patient service revenue .....	\$51,250,000	\$56,050,000	\$54,337,311	\$(1,712,689)
Other operating revenue .....	<u>3,020,000</u>	<u>3,320,000</u>	<u>3,971,980</u>	<u>651,980</u>
Total operating revenue	54,270,000	59,370,000	58,309,291	(1,060,709)
Operating expenses .....	(54,170,000)	(57,440,000)	(55,710,252)	1,729,748
Nonoperating income (loss) .....	950,000	(200,000)	(1,335,961)	(1,135,961)
Contributions .....	<u>150,000</u>	<u>150,000</u>	<u>441,069</u>	<u>291,069</u>
Changes in Net Assets	<u>\$ 1,200,000</u>	<u>\$ 1,880,000</u>	<u>\$ 1,704,147</u>	<u>\$ (175,853)</u>

## NOTES

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences.

The Board of Trustees annually prepares and adopts a budget designating the amount necessary for the improvement and maintenance of the Hospital following required public notice and hearing in accordance with Chapters 24 and 392.6 of the Code of Iowa. The Board of Trustees certifies the approved budget to the appropriate city officials. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Formal and legal budgetary control is based on total expenditures.

For 2008, the Hospital's expenditures did not exceed the amount budgeted.

**SPENCER MUNICIPAL HOSPITAL  
SUPPLEMENTAL INFORMATION  
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007**

See Independent Auditors' Report.

SPENCER MUNICIPAL HOSPITAL  
GROSS PATIENT SERVICE REVENUE - Continued  
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	2008				2007	
	Inpatient	Outpatient	Skilled Care	Home Health	Total	Total
OTHER PROFESSIONAL SERVICES-						
Continued:						
CT scan.....	\$ 1,016,809	\$ 4,359,314	\$ -	\$ -	\$ 5,376,123	\$ 5,099,859
MRI.....	150,746	2,036,162	-	-	2,186,908	2,465,628
Nuclear medicine.....	46,538	883,229	-	-	929,767	988,297
Radiation oncology.....	84,357	-	-	-	84,357	84,164
Pharmacy.....	3,012,140	8,483,897	314,901	-	11,810,938	12,001,713
Therapy pool.....	-	150,277	-	-	150,277	182,766
Anesthesiology.....	535,225	998,112	368	-	1,533,705	179,300
Physical therapy.....	459,965	902,764	137,258	20,652	1,520,639	1,649,660
Speech therapy.....	19,554	153,963	6,196	217	179,930	293,636
Occupational therapy.....	227,623	391,378	76,516	-	695,517	736,954
Pulmonary function testing.....	5,030	105,839	-	-	110,869	81,072
Sleep study.....	-	567,910	-	-	567,910	337,633
Pulmonary rehab.....	-	70,665	-	-	70,665	70,034
Cardiac rehab.....	-	229,172	-	-	229,172	243,354
Dialysis - Spencer.....	-	1,232,405	-	-	1,232,405	1,461,190
Dialysis - Spirit Lake.....	-	1,346,149	-	-	1,346,149	1,289,898
Home health:						
Registered nurse care.....	-	-	-	787,288	787,288	657,961
Aides care.....	-	-	-	486,008	486,008	437,199
County assistance.....	-	-	-	100,833	100,833	90,000
Other care.....	-	-	-	1,618,138	1,618,138	1,533,444
TOTAL OTHER PROFESSIONAL SERVICES	10,428,860	32,167,183	826,105	3,013,136	46,435,284	44,023,079
TOTAL GROSS PATIENT SERVICE REVENUE	\$ 40,488,393	\$ 62,127,134	\$ 1,615,826	\$ 3,016,140	\$ 107,247,493	\$ 101,978,427

See Independent Auditors' Report.

SPENCER MUNICIPAL HOSPITAL  
NET PATIENT SERVICE REVENUE  
AND OTHER OPERATING REVENUE  
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
GROSS PATIENT SERVICE REVENUE (Schedule 1).....	\$ 107,247,493	\$ 101,978,427
ADJUSTMENTS TO PATIENT SERVICE REVENUE:		
Medicare program.....	34,888,463	34,914,097
Medicaid program.....	5,065,279	4,928,912
Blue Cross / Wellmark.....	9,650,051	7,781,205
Other payors.....	2,557,590	1,858,147
Charity care.....	748,799	445,096
TOTAL ADJUSTMENTS TO PATIENT SERVICE REVENUE	<u>52,910,182</u>	<u>49,927,457</u>
NET PATIENT SERVICE REVENUE	<u>\$ 54,337,311</u>	<u>\$ 52,050,970</u>
OTHER OPERATING REVENUE:		
Cafeteria sales.....	\$ 287,262	\$ 289,825
Photo service.....	1,310	1,546
Medical record transcripts.....	18,850	12,906
Miscellaneous.....	260,901	222,101
Steam sold.....	6,879	3,637
Purchase discounts.....	10,099	9,714
Education programs.....	61,318	57,577
AG health and safety clinic.....	76,479	71,265
Outreach services:		
Enterostomal therapy.....	101,981	69,957
Speech therapy.....	24,605	27,690
Occupational therapy.....	57,990	37,423
Physical therapy.....	176,775	124,378
Athletic enhancement.....	87,106	70,148
Lifeline.....	153,098	133,082
Abben fees:		
Personnel services.....	169,289	166,819
Building and equipment rental.....	284,146	326,174
Equity in earnings of Abben.....	1,447,873	1,416,472
Employee health.....	5,636	5,493
TOTAL OTHER OPERATING REVENUE	<u>\$ 3,231,597</u>	<u>\$ 3,046,207</u>

See Independent Auditors' Report.

SPENCER MUNICIPAL HOSPITAL  
SALARIES, PROFESSIONAL SERVICES, AND SUPPLIES AND OTHER EXPENSES  
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	Salaries		Professional Services		Supplies and Other Expenses	
	2008	2007	2008	2007	2008	2007
Clinical resources.....	\$ 408,254	\$ 290,183	\$ 68,024	\$ 72,038	\$ 4,295	\$ 1,902
Medical and surgery.....	2,092,041	2,130,582	26,219	49,796	157,070	143,793
Obstetrics.....	547,726	544,576	2,455	5,859	41,913	41,378
Mental health.....	764,280	786,107	2,575	10,939	23,031	18,505
Intensive care.....	496,478	519,425	81,680	81,703	29,917	28,060
Intravenous therapy.....	-	-	-	-	46,252	44,486
Operating room.....	1,099,040	1,000,623	260,400	277,395	574,923	1,145,862
Post anesthesia care unit.....	438,960	356,045	-	-	85,007	88,376
Emergency service.....	737,588	707,454	951,110	825,383	67,865	69,774
Central sterilization.....	163,351	148,568	-	-	166,432	152,613
Service aide.....	36,017	36,026	-	-	-	-
Same day surgery.....	737,263	858,254	9	1,251	49,236	45,015
Home health.....	897,856	867,989	17,084	12,607	61,599	64,772
Hospice.....	156,798	156,817	108,054	114,433	16,713	14,122
Enterostomal service.....	98,367	86,437	334	1,312	16,689	13,812
Dialysis - Spencer.....	311,373	325,228	18,066	31,906	88,825	83,294
Dialysis - Spirit Lake.....	240,497	217,403	44,173	62,391	179,854	142,470
Partial hospitalization.....	41,497	44,468	-	358	2,528	3,242
Medical oncology.....	247,857	200,100	-	-	20,704	16,037
Respiratory therapy.....	234,214	234,398	19,354	25,464	63,628	64,467
Laboratory.....	597,520	554,728	223,932	215,751	424,196	421,006
Blood bank.....	-	-	-	-	136,030	156,042
Electrocardiology.....	99,837	95,344	59,713	65,965	-	-

See Independent Auditors' Report.



SPENCER MUNICIPAL HOSPITAL  
SALARIES, PROFESSIONAL SERVICES, AND SUPPLIES AND OTHER EXPENSES - Continued  
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	Salaries		Professional Services		Supplies and Other Expenses	
	2008	2007	2008	2007	2008	2007
Electroencephalography.....	\$ -	\$ -	\$ 404	\$ 9,250	\$ -	\$ -
Radiology.....	452,419	493,926	116,007	74,293	356,406	133,757
Ultrasound.....	142,586	143,580	73,095	63,385	43,814	37,947
Stereotactic biopsy.....	-	-	139,218	118,390	-	-
MRI.....	98,767	56,822	-	-	11,827	148,973
Athletic enhancement.....	66,034	71,611	675	170	7,606	7,118
Nuclear medicine.....	110,543	105,712	6,717	-	124,090	113,246
Pharmacy.....	554,049	775,984	526,480	45,920	138,456	34,102
Anesthesiology.....	49,868	38,077	-	-	88,451	111,524
Physical therapy.....	580,288	531,859	17,228	56,965	37,238	33,173
Ambulance.....	473,284	489,875	335	625	74,335	55,030
Social services.....	154,183	158,694	-	-	815	1,480
Cardiac rehabilitation.....	124,646	131,919	-	-	10,329	10,215
Medical records.....	506,833	510,003	90,517	69,721	99,042	118,892
CT scan.....	161,909	155,015	84,650	62,920	214,992	196,799
Occupational therapy.....	272,500	231,959	101	201	18,418	18,143
Infection control.....	51,860	51,157	-	-	1,381	2,217
Speech therapy.....	103,711	115,365	101	201	7,442	6,150
AG health and safety clinic.....	53,394	46,584	1,150	1,264	43,272	41,842
Sleep studies.....	-	-	144,368	-	15,066	8,603
Cardio-pulmonary diagnostic.....	35,899	31,417	-	-	-	-
Sports medicine.....	14,873	14,412	292,500	262,167	49,333	50,993
Lifeline.....	28,331	27,783	71,178	56,946	43,209	55,667

See Independent Auditors' Report.

SPENCER MUNICIPAL HOSPITAL  
SALARIES, PROFESSIONAL SERVICES, AND SUPPLIES AND OTHER EXPENSES - Continued  
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	Salaries		Professional Services		Supplies and Other Expenses	
	2008	2007	2008	2007	2008	2007
Therapy pool.....	\$ -	\$ -	\$ -	\$ -	\$ 2,001	\$ 3,460
Plant.....	495,066	506,020	25,490	-	350,868	399,562
Utilities.....	-	-	-	-	976,941	1,011,646
Housekeeping.....	545,272	477,525	9,352	30,258	77,475	82,755
Laundry.....	137,906	136,810	3,862	8,990	43,001	45,461
Nutrition services.....	667,001	674,584	11,387	20,635	432,381	434,843
Valet.....	46,341	55,689	10,244	-	11,422	18,313
General accounting.....	272,926	241,095	4,506	7,464	20,561	19,772
Human resources.....	165,417	151,415	-	-	249,774	163,219
Patient accounts.....	745,307	807,194	207,753	125,037	78,485	81,731
Information systems.....	481,914	404,573	10,302	39,857	439,565	286,153
Administration.....	756,710	745,377	307,339	274,600	883,799	1,184,955
Materials management.....	129,611	130,936	3,032	2,852	78,875	26,839
Communications.....	-	-	5,351	15,243	101,959	104,165
Central supply.....	72,104	67,417	-	-	4,250,725	3,897,414
Printing and duplicating.....	25,606	26,666	-	-	132,406	139,556
Insurance.....	-	-	-	-	293,191	272,235
Staff development.....	167,439	129,441	12,886	12,022	25,961	29,804
Medical care evaluation.....	469,582	413,636	33,521	40,182	23,061	18,254
PET/CT scan.....	-	-	83,050	104,400	878	2,037
Clinical technology.....	-	40,897	-	-	373	5,088
Women's health.....	34,633	32,749	-	-	3,769	3,834
SHAPE .....	90,897	49,942	-	-	7,092	10,842
TOTAL	\$ 19,786,523	\$ 19,434,475	\$ 4,175,981	\$ 3,358,509	\$ 12,126,792	\$ 12,186,837

See Independent Auditors' Report.

SPENCER MUNICIPAL HOSPITAL  
 PATIENT RECEIVABLES AND ALLOWANCE FOR DOUBTFUL ACCOUNTS  
 FOR THE YEARS ENDED JUNE 30, 2008 AND 2007  
 UNAUDITED

## PATIENT RECEIVABLES ANALYSIS OF AGING:

	2008		2007	
	<u>Amount</u>	<u>Percent To Total</u>	<u>Amount</u>	<u>Percent To Total</u>
DAYS SINCE DISCHARGE:				
00 - 30.....	\$ 5,603,026	42.01%	\$ 5,439,939	34.86%
31 - 60.....	1,419,795	10.64%	1,960,550	12.57%
61 - 90.....	790,027	5.92%	722,649	4.63%
91 - 120.....	470,182	3.53%	738,060	4.73%
Over 120.....	1,652,674	12.39%	2,695,557	17.27%
Clinic receivables.....	162,526	1.22%	154,497	0.99%
TOTAL RECEIVABLES BILLED	<u>10,098,230</u>	<u>75.71%</u>	<u>11,711,252</u>	<u>75.04%</u>
In Hospital.....	<u>3,239,797</u>	<u>24.29%</u>	<u>3,894,398</u>	<u>24.96%</u>
TOTAL PATIENT RECEIVABLES	<u>13,338,027</u>	<u>100.00%</u>	<u>15,605,650</u>	<u>100.00%</u>
Allowance for doubtful accounts.....	(1,944,000)		(2,130,000)	
Allowance for contractual adjustments.....	(5,396,000)		(5,440,000)	
Clinic allowance for contractual adjustments ...	<u>(56,500)</u>		<u>(71,500)</u>	
TOTAL ADJUSTMENTS	<u>(7,396,500)</u>		<u>(7,641,500)</u>	
PATIENT RECEIVABLES - NET	<u>\$ 5,941,527</u>		<u>\$ 7,964,150</u>	

## ALLOWANCE FOR DOUBTFUL ACCOUNTS:

	<u>2008</u>	<u>2007</u>
BALANCE - BEGINNING OF YEAR	\$ 2,130,000	\$ 2,030,000
Provision charged to expense.....	2,229,841	1,575,559
Accounts written off.....	(3,128,850)	(2,061,941)
Recoveries of accounts previously written off.....	1,098,009	586,382
Allowance reclassified to contractual adjustments.....	<u>(385,000)</u>	<u>-</u>
BALANCE - END OF YEAR	<u>\$ 1,944,000</u>	<u>\$ 2,130,000</u>

See Independent Auditors' Report.

SPENCER MUNICIPAL HOSPITAL  
INVENTORY AND PREPAID EXPENSES  
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
INVENTORY:		
Store room.....	\$ 455,493	\$ 321,934
Nutrition services.....	13,935	11,635
Laboratory.....	85,196	74,796
Laundry.....	7,845	7,925
Pharmacy.....	473,855	493,279
Radiology.....	23,211	31,793
Surgery.....	1,129,693	883,681
Various other departments.....	<u>26,042</u>	<u>42,294</u>
TOTALS	<u>\$ 2,215,270</u>	<u>\$ 1,867,337</u>

PREPAID EXPENSES:		
Service contracts.....	\$ 411,594	\$ 346,824
Association dues.....	34,104	27,690
Fees and licenses.....	1,145	1,071
Insurance.....	<u>17,397</u>	<u>15,143</u>
TOTALS	<u>\$ 464,240</u>	<u>\$ 390,728</u>

See Independent Auditors' Report.

SPENCER MUNICIPAL HOSPITAL  
INVESTMENT TRANSACTIONS  
FOR THE YEAR ENDED JUNE 30, 2008

	Balances Beginning <u>of Year</u>	Additions During the <u>Year</u>	Sales During the <u>Year</u>	Realized & Unrealized <u>Gains (Losses)</u>	Balances End <u>of Year</u>
Common stocks.....	\$ 6,530,361	\$ 5,319,721	\$ (4,203,571)	\$ (1,038,917)	\$ 6,607,594
Real estate.....	815,664			68,000	883,664
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL	<u>\$ 7,346,025</u>	<u>\$ 5,319,721</u>	<u>\$ (4,203,571)</u>	<u>\$ (970,917)</u>	<u>\$ 7,491,258</u>

See Independent Auditors' Report.

SPENCER MUNICIPAL HOSPITAL  
COMPARATIVE STATISTICS  
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007  
UNAUDITED

	<u>2008</u>	<u>2007</u>
Admissions:		
Medical/surgery, obstetrics & intensive care.....	2,620	2,537
Mental health unit.....	492	571
Swing bed and inn care.....	274	222
Newborns.....	<u>272</u>	<u>272</u>
 TOTAL	 <u>3,658</u>	 <u>3,602</u>
Discharges:		
Medical/surgery, obstetrics & intensive care.....	2,608	2,541
Mental health unit.....	493	572
Swing bed and inn care.....	289	244
Newborns.....	<u>274</u>	<u>197</u>
 TOTAL	 <u>3,664</u>	 <u>3,554</u>
Patient days:		
Medical/surgery, obstetrics & intensive care.....	8,756	8,842
Mental health unit.....	3,206	3,548
Swing bed and inn care.....	1,791	1,709
Newborns.....	<u>608</u>	<u>577</u>
 TOTAL	 <u>14,361</u>	 <u>14,676</u>
Average length of stay (days):		
Medical/surgery, obstetrics & intensive care.....	3.34	3.49
Mental health unit.....	6.52	6.21
Swing bed and inn care.....	6.54	7.70
Newborns.....	2.24	2.12
Average number of patients per day:		
Medical/surgery, obstetrics & intensive care.....	23.99	24.22
Mental health unit.....	8.78	9.72
Swing bed and inn care.....	4.91	4.68
Newborns.....	1.67	1.58
Outpatient registrations.....	<u>36,763</u>	<u>35,874</u>
Licensed beds at end of year.....	<u>99</u>	<u>99</u>

See Independent Auditors' Report.

**WINTHER, STAVE & CO., LLP**  
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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
BASIC FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT  
AUDITING STANDARDS

To the Board of Trustees of  
Spencer Municipal Hospital

We have audited the accompanying basic financial statements of Spencer Municipal Hospital's primary government as of and for the years ended June 30, 2008 and 2007, and have issued our report thereon dated October 1, 2008. We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Spencer Municipal Hospital's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the primary government financial statements, but not for the purpose of expressing our opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Hospital's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of the Hospital's financial statements that is more than inconsequential will not be prevented or detected by the Hospital's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the Hospital's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Spencer Municipal Hospital's primary government financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about Spencer Municipal Hospital's operations for the year ended June 30, 2008 are based exclusively on knowledge obtained from procedures performed during our audit of the primary government financial statements of Spencer Municipal Hospital. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The Hospital's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the Hospital's responses, we did not audit the Hospital's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and constituents of Spencer Municipal Hospital and other parties to whom Spencer Municipal Hospital may report. This report is not intended to be and should not be used by anyone other than those specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Spencer Municipal Hospital during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*Winters, Stearns & Co., LLP*

October 1, 2008



SPENCER MUNICIPAL HOSPITAL  
SCHEDULE OF FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2008

**Part I: Findings Related to the Primary Government Financial Statements**

None

**Part II: Other Findings Related to Required Statutory Reporting**

**II-A-08      Certified Budget**

For the year ended June 30, 2008, the Hospital's expenditures did not exceed the amount budgeted.

**II-B-08      Questionable Expenditures**

No expenditures that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

**II-C-08      Travel Expense**

No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.

**II-D-08      Business Transactions**

Business transactions between the Hospital and Hospital officials or employees are detailed as follows:

<u>Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Neal Conover, Board member Chairman of Northwest Bank	Interest income from Northwest Bank	\$134,089
Kris Van Berkum, Board member Co-owner Janitor's Closet Ltd.	Purchase of cleaning supplies	\$ 8,082
John Cotton, Board member Co-owner Cotton Grave Farm Management & Realty	Farm management fees	\$ 3,640

The transactions do not appear to represent a conflict of interest since the transactions were entered into through competitive bidding in accordance with Chapter 362.5(4); additionally with regards to the banking transactions, the bank has been approved by the board of trustees in accordance with Chapter 362.5(2) of the Code of Iowa.

SPENCER MUNICIPAL HOSPITAL  
SCHEDULE OF FINDINGS - Continued  
FOR THE YEAR ENDED JUNE 30, 2008

**Part II: Other Findings Related to Required Statutory Reporting** - Continued

**II-E-08     Board Minutes**

No transactions were found that we believe should have been approved in Board minutes but were not. The Board minutes were examined and appeared to give a condensed, accurate account of business transacted by the Board.

**II-F-08     Deposits and Investments**

No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Hospital's investment policy were noted.